

## Message Text

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64

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-12 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 L-03

SS-15 NSC-10 RSR-01 /156 W  
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R 101438 Z APR 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 9297

INFO AMEMBASSY BONN

LIMITED OFFICIAL USE OECD PARIS 9928

E. O. 11652: N/A

TAGS: ECON, EFIN, OECD, GW

SUBJ: EDRC ANNUAL REVIEW OF GERMANY, APRIL 18

REF: EDR(73)6

1. SUMMARY: OECD DRAFT SURVEY ARGUES GERMAN ECONOMY CLEARLY RISKS OVERHEATING AND FURTHER ACCELERATION PRICE RISES UNLESS ADDITIONAL RESTRICTIVE MEASURES ARE ADOPTED SOON. ACTION REQUESTED: U. S. IS AN EXAMINER AND MISSION REQUESTS COMMENT AND GUIDANCE ON REVIEW. END SUMMARY.

2. OECD SECRETARIAT DRAFT ECONOMIC SURVEY OF GERMAN (REFDOC) NOTES ECONOMY BEGAN EXPORT-LED UPTURN IN FOURTH QUARTER 1972. GIVEN SMALL MARGIN OF SLACK AT BEGINNING THIS UPSWING, OPTIMUM DEGREE RESOURCE USE LIKELY BE REACHED EARLY STAGE OF CYCLE. STRONG INFLATIONARY PRESSURES EXISTING AT BEGINNING OF CYCLE BEAR LITTLE RESEMBLANCE TO EARLIER CYCLICAL EXPERIENCE AND PRESENT DIFFICULT PROBLEMS FOR ECONOMIC POLICY. FORECAST IS THAT RATE GROWTH REAL GNP IN 1973 LIKELY EXCEED OFFICIAL 4-1/2 PER CENT TARGET FIGURE " BY A SIGNIFICANT MARGIN", AND RESOURCE USE " COULD WELL REACH CRITICAL LEVEL BEFORE END OF YEAR". SECRETARIAT  
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STATES FAILURE TO ARREST RECENT STRENGTHENING COST AND PRICE PRESSURES COULD JEOPARDIZE AUTHORITIES' 1973 PRICE TARGET.

3. SECRETARIAT BELIEVES PROSPECTS FOR MAINTAINING SATISFACTORY EXTERNAL BALANCE DURING CURRENT UPSWING APPEAR FAVORABLE. IT NOTES THAT MARCH REVALUATION, THE FLOAT WITH OTHER MAJOR CURRENCIES, AND CONTINUATION CAPITAL CONTROLS OUGHT REDUCE VULNERABILITY OF ECONOMY TO EXTERNAL DISTURBANCES, AN IMPORTANT SOURCE PAST CYCLICAL AND FINANCIAL INSTABILITY.

4. SECRETARIAT CONCLUDES THAT ECONOMY CLEARLY RUNS RISK OF OVERHEATING AND FURTHER ACCELERATION PRICE RISE UNLESS ADDITIONAL RESTRICTIVE MEASURES ARE ADOPTED AT EARLY DATE. IT NOTES, HOWEVER, SCOPE FOR FURTHER ANTI-INFLATIONARY ACTION APPEARS BE LIMITED FOR BOTH POLITICAL AND ECONOMIC REASONS. NEVERTHELESS, SECRETARIAT FEELS THERE IS STILL ROOM FOR POLICY ACTIONS, INCLUDING RESTRAINT OF GROWTH INVESTMENT EXPENDITURE ( ESPECIALLY FOR CONSTRUCTION), FURTHER INCREASE IN COMPANY TAXATION, SUSPENSION TAX ALLOWANCES TO HOUSEBUILDERS, AND VOLUNTARY RESTRAINT OF LAENDER AND LOCAL AUTHORITIES' INVESTMENT EXPENDITURES. SECRETARIAT ALSO SUGGESTS USE OF GROWTH AND STABILITY LAW, IF NECESSARY, TO IMPOSE COMPULSORY RESERVE REQUIREMENTS OR LIMITS ON LAENDER AND LOCAL AUTHORITIES' BORROWING. SECRETARIAT STATES BUNDESBANK NOW IN FAVORABLE POSITION KEEP GROWTH MONETARY AGGREGATES UNDER TIGHT CONTROL, BUT ACTION WOULD HAVE TO BE TAKEN OVER NEXT FEW MONTHS TO LIMIT GROWTH MONETARY BASE IF BUSINESS AND LOCAL AUTHORITIES' INVESTMENT IS TO BE DAMPENED.

COPIES OF DRAFT SURVEY ( REFDOC) AIR POUCHED EUR/ RPE STATE ( KINNELLY) AND DIRECT MAILED HERMBERG, EMBASSY BONN, APRIL 10. ACTION REQUESTED: SINCE US IS AN EXAMINING COUNTRY, WOULD APPRECIATE COMMENT AND GUIDANCE. WE WELCOME ATTENDANCE FROM EMBASSY BONN.

DECON APRIL 10, 1974.  
BROWN

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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